

A BRIEF DESCRIPTION OF YEAR-END RESERVES PROCEDURES

YEAR-END RESERVE PROCESS OVERVIEW

Update 5/31 IBNR/Reserve report to preliminary 6/30 IBNR/Reserve report, including “Unallocated” worksheet financial data section. Enter claims information system 6/30 claims data, adjusting WC claims data for SIF claim reserve requirements after agreeing on those reserve amounts with the TPA staff. Adjust Property claims data to exclude certain CAT claims data on the IBNR worksheet.

Develop Loss Triangles for the coverages using the incurred and paid loss and ALAE amounts on the “IBNR” worksheet of the IBNR/Reserve report @ 6/30.

Calculate excess reserves for lines of coverage with excess coverage. These “explicit” recoveries are included on the estimated recoveries line of the financials

Revise 6/30 IBNR/Reserve report with new “net” case reserves, including the “SELECTED” and “UNALLOCATED” worksheets. An additional column “O/S Excess Reserves” is added to the additional “SELECTED” worksheet that includes the calculated excess case reserves, named “SELECTED WITH EXCESS RESERVES”.

Accounting calculates future Estimated Recoveries for IBNR reserves to be added to the IBNR reserve lines of the financials and then offset by being included as recovery on the estimated recoveries line of the 6/30 financials. These recoveries are “implicit” recoveries due to ORM using net incurred/paid amounts when developing the monthly development factors for each major coverage.

Due to a court decision rendered during FY 2013, WC Maritime coverage has been re-activated as a separate line of coverage from Regular WC coverage. Currently, there are no official WC Maritime claims listed in the claims data system, they are classified as regular WC claims. ORM may or may not reclassify WC reserves as of 6/30/ as WC Maritime reserves later on in the financial statement development process.

RUN YEAR-END RESERVE REPORTS

Run claims detail export reports (which give detailed claim information for each claim in the system) and claim summary reports (which give summarized information for each payment and outstanding reserve “bucket” for each fiscal year by line of coverage) during “dead period” and update claims data for each line of coverage on the “DATA” tab by reconciling the two reports and then copying the summary report over to the

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DATA tab. Adjust Property claims for CATS data by sorting out the CAT claims from the detail export and removing those amounts from the data on the “PROPERTY” tab. On the “RECAP” tab, add back any outstanding case reserves for CAT property claims in addition to the O/S Case Reserves total from the “IBNR” tab/spreadsheet.

At the end of each quarter, claims detail export reports and claim summary reports are run in the claims management system to arrive at the claims data needed to develop that quarter’s reserves information for each line of coverage.

CLAIMS DETAIL EXPORT REPORTS

Workers Compensation – (WC)

Property

General Liability (GL)

Medical Malpractice (Med Mal)

Road & Bridge

Transportation

For claims detail export reports reports that include multiple coverages (Property and Transportation), sort each line of coverage separately so that the claims detail export totals for that line of coverage will match the claim summary report total for that line of coverage.

All Lines of Business - A claims detail export is run for ALL Lines of Business There are 2 reasons for running this report. First, it is used to verify that all included-coverage claims are included in the total reserve amount (and show disallowed coverage claims). Second, each “bucket” item has an outstanding (O/S) column added to it and the O/S amounts are sorted to show any negative reserves for any particular bucket. Any negative O/S amounts will require an adjustment to the O/S reserve for that particular bucket for that fiscal year on the corresponding claims summary report for that line of coverage.

CLAIMS SUMMARY REPORTS

Claim Summary reports are run for the following lines of coverage listed below after the end of FY.

Workers Compensation (WC)

General Liability (GL)

Property

Boiler & Machinery

Bond

Crime

Medical Malpractice

Road Hazard

Auto Liability
Auto Physical Damage (APD)
Wet Marine
Aviation

Reconcile claims detail export reports and claims summary reports before transferring to DATA worksheet

Verify that the original claims detail export totals match the totals for the original claims summary report for each line of coverage. Sort/filter the Property/Transportation claims detail export by the LOC column by the underlying Property, Boiler & Machinery, Bond and Crime LOC claims in order to compare to each “separated” claims summary report for verification of those amounts. WC claims detail export will not match the WC claims summary report until the SIF adjustments are made to the claims detail export report, which is discussed later.

After making any adjustment to the claims summary report for negative O/S reserves discovered, enter all the claims summary report data named “Coverage Claims Data Extract report” for the above coverages into the appropriate coverage section on the “DATA” spreadsheet of the IBNR/Reserve report.

Verify that claims data successfully transferred from “DATA” and “PROPERTY” spreadsheets to “IBNR” spreadsheet

“Statewide” CATs Claim Data Reports

In order to break out the claims in the claims data system that are CAT claims, the Property claims detail export report run during the dead period will need to be sorted several times.

Sort/filter the “Catastrophe Code” column in Z to A order. Only CAT numbers 49 (Katrina), 51 (Rita), 58 (Gustav), 60 (Ike) and (87) Isaac are to be used. Group together the claims data for each of these CATs and summarize the totals for # of Claims Incurred, PD Paid, Recoveries Received, Deductibles Paid and O/S PD Case Reserves for each CAT.

Enter the relevant CAT claims #, paid PD totals, paid deductibles, recoveries received and O/S PD Case reserves as reductions on the appropriate lines provided on the “PROPERTY” worksheet of the 6-30 IBNR/Reserve report for each CAT.

OTHER PROCEDURES TO YEAR-END RESERVE REPORTS

Since the actuary does not use CAT claims losses in developing the IBNR factors for ORM's use, to reflect the true outstanding reserves as of the end of the fiscal year, any outstanding case reserves on CATS where ORM's SIR amount has not yet been met needs to be added back to the case reserves displayed on the IBNR worksheet. This is done on the RECAP worksheet, where additional outstanding case reserves for Rita, Ike and Isaac are added to the total Property case reserves from the IBNR worksheet.

Also, using the data on the summary worksheet from the sorted CAT report for the current quarter, the O/S case reserves determined above and the Net Incurred amounts for each CAT needs to be adjusted on the bottom of the SELECT worksheet. The Net Incurred amount equals: Paid Case Losses + O/S Case Reserves (regardless of whether SIR amount is met or not) – Recoveries.

Since ORM will select the B-F method (Method #3) exclusively in the future, confirm that none of the fiscal years under the B-F IBNR column has a negative amount on the IBNR worksheet. If there are any negatives, adjust the IBNR amount(s) to \$0.

Update the "Unallocated" spreadsheet's bottom section with the unallocated claims expenses, general & administrative expenses and loss payments for each line of coverage from the preliminary current 6/30 financial statements provided by the ORM Accounting support from OFSS. Note that the loss payments for Property are adjusted to exclude CAT loss payments (also provided by Accounting Support). Also, settlements for Road Hazard claims paid by legislative appropriation during the fiscal year for the last 2 fiscal years are added separately.

In the upper section of the "Unallocated" spreadsheet, verify that no ULAE reserve amount under column M is less than \$5,000.

On the "Selected" spreadsheet, verify that the Net Incurred Case Reserves and Outstanding case reserves for all CATs at the bottom of the spreadsheet are updated. The O/S Case Reserves, O/S ALAE Reserves, Selected IBNR and Selected ULAE reserve amounts displayed on the "Select" spreadsheet show the preliminary reserves before the Case Reserves are adjusted for Excess Case Reserves (See EXCESS RESERVES below).

Once the Excess Reserves (see EXCESS RESERVES below) are calculated, the O/S Case Reserves are adjusted on a new "Select" spreadsheet named "SELECT WITH EXCESS RESERVES" by adding a new column "O/S Excess Reserves" showing the excess reserve amounts. The "Unallocated" spreadsheet is also adjusted to reflect the "Net" Case reserve amounts after removing any excess reserves, resulting in a revised ULAE reserve from the preliminary IBNR/Reserve report ULAE reserve amount.

WC RECONCILIATION INVOLVING SIF CLAIMS

The original 6-30 WC claims detail export must be adjusted in order to reconcile its totals to the WC claims summary report because the claims detail export reflects the total incurred (reserve) amounts for the Ind and Med “buckets” for SIF claims while the claims summary report should correctly shows the incurred Ind and Med reserves for SIF claims at the “capped” statutory/adjusted statutory reserve amount required by law for open SIF claims.

EXPLICIT EXCESS RESERVES

Several lines of insurance may possibly have claims with incurred case reserve amounts that are greater than the SIR level for that line of coverage that was effective at the time the claim occurred. As a result, the total outstanding case reserves shown in the claims system may be overstated by the excess amount of these reserves over the appropriate SIR amount. In order to find possible liability claims with excess reserves, reports should be run for each liability line (accept for Med Mal) on the occurrence basis for open claims with a total incurred amount of \$1 million as the starting point. Then, the incurred case reserves are compared to the SIR amount and excess coverage for that particular line of coverage on the date of the accident as provided by ORM’s Underwriting unit. WC, Road Hazards and Boiler & Machinery, 3 lines of coverage that have had excess reserves in the past.

ESTIMATED RECOVERIES

Using the “DATA” worksheet from the 6-30 IBNR/Reserve report, set up a schedule where the paid amounts (excluding expenses and recoveries) are totaled for each fiscal year for each line of coverage. Use the “Property” tab data for Property. In the column after the total paid amount, enter the recoveries received for each fiscal year for each line of coverage. Leave a blank column after the recovery column for Accounting Support personnel to calculate the % of recoveries to the total paid for each fiscal year.

Skip several columns and enter the O/S case reserves for each fiscal year for each line of coverage. Remember that these O/S reserve amounts need to be adjusted for any excess WC, Road or Boiler reserves (reducing the reserve for the fiscal year(s) when the claim(s) with the excess reserves occurred) as well as any outstanding CAT reserves under the SIR amount for Rita and Ike.

Multiplying the adjusted O/S reserves for each fiscal year by the % figure reflecting the % of recoveries to total loss payments each year results in the estimated reserve recoveries for that fiscal year. Accounting personnel will take the totals of all estimated

recoveries for each line of coverage and enter these amounts on the estimated recovery line each line of coverage on the financial statements. Because ORM's loss triangles include recoveries in the incurred and paid amounts, the actuary for ORM advised several years ago to no longer reduce the IBNR reserves by the estimated recovery amounts. But because GASB requires that estimated recoveries be reported on its own separate line of the financial statements, the recoveries reported on the financials are offset by the adding of the total estimated recovery amounts together with the IBNR reserve amount on the financial statements. The net effect is that there are no estimated recoveries reported on the financials against the IBNR reserves.

ADJUSTMENTS TO RESERVES IF NECESSARY

If the calculated total reserve amount for ORM would fall outside of the acceptable variance range or parameters of the total reserves developed independently by ORM's actuary, adjustments to IBNR reserves must be made. In the past, the developmental factors would be adjusted for the line(s) of coverage that were the furthest off from ORM's actuary reserve figure for that line to bring the total reserves within the acceptable variance range. Since ORM will now be selecting the B-F method exclusively, either the development factor or the IEL for lines with large reserve differences will be adjusted to bring the ORM total reserves within the acceptable variance range from ORM's actuary's total reserves.

SUBMIT "FINAL" FINANCIAL STATEMENTS TO THE ACTUARY

In order to complete the initial "Unallocated" worksheet of the IBNR/Reserve worksheet, the Accounting Support for ORM gives the Statistics unit a "preliminary" financial statement to use to complete the bottom section of the worksheet. However, the Accounting department is continually making adjustments to the financials up until the deadline to submit them to OSRAP. The actuary receives a copy of the "final preliminary" financials upon which he bases his opinion letter concerning ORM reserves @ 6/30.

